Busting the Food Cost Budget

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Every foodservice organization on the planet sets a budget for food costs. Chefs and F&B directors who can hit the budget are considered better managers than those who exceed it. From a financial standpoint, it is necessary to have a budget and try to stay close to it. I'm amazed at how unscientifically this number is determined, and even more amazed at how chefs and kitchen management teams are judged on their ability to hit a number they have so little control over.

Consider the chain restaurant that sets a budget for its stores at 30%. Manager "A" gets a 29% and Manager "B" at a different store with identical menus gets a 32%. We might be tempted to say Manager A is the better manager. If we could calculate the best food cost each store could possibly have run during the period, the conclusion could be quite different. This cost, sometimes called the theoretical, ideal or perfect food cost is based on the cost of using exactly the right amount of food by controlling theft, waste, spoilage and over-portioning. The calculation takes into consideration the number of each menu item legitimately distributed or sold, the item recipes and the yield potential of each raw ingredient.

If Manager A with the 29% could have run a 26% food cost (a 3 point variance), and Manager B with the 32% could have run a 31% based on the perfect cost (a 1 point variance), it is clear that Manager B ran a more efficient operation than Manager A. This points out the inherent danger of using the budget as a determinant of capability. Many managers and chefs have been terminated for missing their budget, even though they were running very tight operations. If the operation is running with little variance and still can't hit the budget, other adjustments not related to talent need to be made.

Actual food costs vary by meal period and day. Purchase prices fluctuate widely on food items. Choices made by restaurant patrons change as well, and item yields can vary significantly. Simply consider the difference in seasonality for all three key factors. Produce purchased off season can have lower yields AND higher costs. The addition of daily specials, catering and weather conditions increase cost variability.

Under these conditions, it is simply impossible to hit the budget number consistently. In order to do so, the menu, the recipes and the types of items purchased would have to either be set to produce the budget food cost (which is impractical), or be monitored and adjusted constantly. Since raw material costs change daily, it would be necessary to accurately calculate the food cost and sales on a daily basis, compare the results to the budget and adjust the three cost components. This would require at least one full-time accounting position, offsetting any gains in cost reduction. Even with software capable of performing the calculations, people would not be able to take daily inventories, make adjustments to recipes and correctly predict the next day's sales mix.

Chefs and F&B managers understand the basic unfairness of determining their competence based on performance against the budget. Some actually "fudge" period-end inventories or delay posting of purchases to make the numbers work. However, there are ways to tackle this problem and get as close as possible to the desired budget without changing staff.

Reducing variance between actual and ideal food usage is first. With low variances, the focus can shift to other factors that are far more controllable. Accurate and current recipe costs are the next step. This allows development of a product contribution ranking that provides most of the information needed to make good periodic menu change decisions. Slight changes to high contributors can have a more significant impact on food costs than major menu changes. Finally, using smart purchasing techniques such as purchase orders and bidding help reduce costs before the food enters the building.

Software is available to help with all these things, but it starts with the proper mindset. Busting the managers or chefs if they don't achieve what could be unrealistic budget numbers is only effective if they are allowing the operation to run with high variances. But if they already run a tight ship, bust the budget first. With good data dealing with variance, usage, costs and product contributions, adjustments can be made to develop realistic, achievable budgets.

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